

Manager's Quick Reference to Compensation Decisions

GENERAL POINTS

- Compensation practices are intended to be effective tools in addressing business needs. While decisions should not be based on emotion, feel comfortable with the opportunity and flexibility these provisions provide.
- With the flexibility allowed in making pay decisions, be sure to understand the purpose and limits for each type of movement and differential. Consider your department's parameters along with state personnel system policies.
- Take a longer-term perspective and be mindful of the impact on budgets. Anticipate all of the actions that will or may occur over the next year. Remember any adjustments from the annual compensation survey are automatic and base building. Also consider performance awards under your department's performance pay program.
- Carefully examine the **total compensation** picture to avoid unintentionally over-expending at a future point or setting an unintended precedent.
- There are a number of non-salary options available that can be very powerful motivators. Consider them along with the cash components, e.g., benefits, leave, work-life options. Remember the whole package.
- Each department is strongly encouraged to create a review process to examine each potential compensation decision. *If you need help with pay components or potential scenarios, please ask.* A sample worksheet is attached.
- Do all of this **before** any negotiations or offers to employees or applicants. Be sure you and the employee understand all the components and conditions of an offer, including limits and ending dates.

HIRES (new or returning to the state personnel system)

- **Base** salary should be the minimum of the appropriate pay range unless unusual circumstances exist.
- Hiring above the minimum should be a unique practice due to labor market shortages in order to avoid inflating labor costs (hires and compression with current staff) or setting an unintended precedent for the future. Can you clearly articulate and defend your rationale for this decision? In relation to others, past or future?
- Although the hire rate is base building, discretionary pay differentials, in-range salary movements, and, if appropriate, other pay premiums may also apply.
- **Considerations** (along with budget and department parameters):
 - ✓ market conditions;
 - ✓ retention or turnover rates and all of the causes;
 - ✓ uniqueness of competencies and background in relation to the total applicant or talent pool;
 - ✓ other future increases, whether base or non-base building, that will or could occur (next year at least) and their impact on total compensation for the employee and on the budget;

- Remember to figure in other premiums or differentials that may be applicable, e.g., shift, overtime.
- ✓ non-salary options that could be mixed to make the total compensation decision; and,
- ✓ position of current staff within the range.

UPWARD (range with higher maximum) **AND LATERAL** (same range or range with same maximum)

- Base salary can remain the same or increase by any amount up to and including the maximum.
- All increases are **base** building.
- Adjustments within a pay range are allowed for the following special circumstances. There are limits and other conditions, including the requirement that departments have written plans **before** using these pay mechanisms so work with your human resources office.
 - Salary range compression where longer-term employees have been below new hires for a period of time and there are documented retention problems.
 - Counteroffer when there is a need to retain a critical strategic skill and the counteroffer is confirmed.
 - Delayed promotion where no increase or a partial increase is granted at the time of promotion. A one-time increase is allowed with 12 months when budget becomes available or performance is proven. Intent to grant the increase must be documented at the time of the promotion.
 - New hires may be granted a one-time increase within 12 months when budget becomes available or performance is proven. Intent to grant the increase must be documented at the time of hire.
- **Considerations** (along with budget and department parameters):
 - ✓ market conditions, retention or turnover rates (and causes), position of current staff and hires within the range, other pay premiums that may be applicable, non-salary options, and uniqueness of competencies in relation to the talent pool (refer to considerations under “Hires” section);
 - ✓ other future increases, whether base or non-base building, that will or could occur (next year at least) and their impact on total compensation for the employee and on the budget;
 - ✓ degree of change to the assignment and its worth to the organization. For example, a lateral move to a new occupation may be more valuable than a lateral or a promotion up a level in the same occupation; and,
 - ✓ your department’s written plan on in-range salary movements and other policies.

DISCRETIONARY PAY DIFFERENTIALS (four types)

- A department must have a written plan in place **before** a discretionary pay differential is used. Be sure it is communicated to all employees. Consider involving employees in the creation of a plan.
- An individual written agreement is required each time a discretionary pay differential is used.
- These differentials are **non-base** building and, in combination with other pay, cannot exceed the statutory lid in any given month.
- These differentials are not a substitute for position allocations, promotions, or performance awards.

Counteroffer.

- ☞ Applies to current employees in the state personnel system.
- ☞ **Use.** When there is a need to retain a critical strategic skill and the counteroffer is confirmed. This is different from the base-building in-range salary movement (refer to “Upward and

Lateral” section).

Signing Bonus.

- ☞ Applies to new employees to the state personnel system.
- ☞ There must be documented recruitment and retention problems.
- ☞ Consider paying the bonus in at least two payments -- part when the person reports to work and the remainder after a specified amount of time, e.g., 6 months or completion of probation.
- ☞ **Use.** Fill positions in critical occupations or attract unique critical skill sets in relation to market.

Referral Award.

- ☞ Applies to current employees, except HR professionals who recruit and hiring authorities.
- ☞ There must be documented recruitment and retention problems for unique skills.
- ☞ Pay the award in at least two payments -- part when the new employee reports to work and part after a specified amount of time, e.g., 6 months or completion of probation. Consider requiring that the current employee, and possibly the new employee, still be employed at the time the second payment is due.
- ☞ **Use.** Reward an employee for referring a person who is subsequently hired into a position requiring unique critical skill sets in relation to the market.

Temporary Pay Differential.

- ☞ Applies to current employees.
- ☞ The differential is paid through regular monthly payroll.
- ☞ **Uses.** “Acting” assignment where the employee has assumed the **full** set of duties from a higher-level position. The “acting” assignment must be *longer than 30 days and cannot exceed 6 months* for purposes of eligibility for differential pay.

OR

Critical, long-term project that is *outside the normal assignment* and critical to the mission of the department.

OR

Retain a critical, unique set of specialized skills where the loss of the skill set would result in documented severe impact on the department and its mission.

- **Considerations** (along with budget and department parameters):
 - ✓ market conditions, use of in-grade hiring, retention or turnover rates (and causes), position of current staff and hires within the range, other pay premiums that may be applicable, non-salary options, and uniqueness of competencies in relation to the talent pool (refer to considerations under “Hires” section);
 - ✓ other future increases, whether base or non-base building, that will or could occur (next year at least) and their impact on total compensation for the employee and on the budget;

DOWNWARD (range with a lower maximum)

- Downward movements have very specific provisions. ***It is recommended that you work closely with your department HR professionals on downward movements.***
- Job evaluation activity (individual position review, system maintenance study, annual salary survey adjustment). A “saved pay” statute applies and base salary **must** remain unchanged for up to three years from the

effective date.

- Non-disciplinary and disciplinary demotions. Base salary may be set anywhere in the new range, up to the maximum of the range that does not exceed current base salary.
 - ✓ In the case of a layoff, the department should be consistent regarding preserving pay up to the maximum of the new range.
- **Considerations** (along with budget and department parameters):
 - ✓ refer back to the considerations in other sections; and,
 - ✓ other future increases, whether base or non-base building, that will or could occur (next year at least) and their impact on total compensation for the employee and on the budget.

Other sources of information:

- Department human resources office
- Open Ranges, In-Range Salary Movements, & Pay Differentials at www.colorado.gov/dpa/dhr.
- Director's Administrative Procedures Chapter 3, at www.colorado.gov/dpa/dhr.

Prepared by the Compensation Unit, Division of Human Resources, Department of Personnel & Administration. Updated 11/04.

Sample

MANAGER'S COMPENSATION DECISION WORKSHEET

Today's Date ____/____/____

Effective Date ____/____/____

Division _____

Work Unit _____

Employee/Candidate Name _____ Position # _____

Current class/code _____ New class/code _____

Helpful Hint: Fill in the salary figures on the pay lines as a visual aid (include current base pay).

Current Grade _____

Min.

Max.

New/Hire Grade _____

Min.

Max.

Monthly Earnings	Current	Proposed
Base Salary: (If effective in July, be sure base reflects any salary adjustment and base building performance award.)		
1. Base building: ____ % or \$ ____ proposed increase/hire (subject to max.)	1. \$	1. \$
In-range Salary Movement (base building subject to max.)		
2. Salary Range Compression: ____ % or \$ ____ proposed increase. Date ____/____/____		2. \$
3. Counteroffer (base building): ____ % or \$ ____ proposed increase. Date ____/____/____		3. \$
4. Delayed Promotional: ____ % or \$ ____ proposed increase. Date ____/____/____		4. \$
5. New Hire: ____ % or \$ ____ proposed increase. Date ____/____/____		5. \$
Discretionary Pay Differentials (subject to lid*)		
6. Signing Bonus: \$ ____ Lump sum in ____ # payments (non-PERA)		6. \$
7. Referral Award: \$ ____ Lump sum in ____ # payments (non-PERA)		7. \$
8. Counteroffer (non-base): \$ ____ or % ____		8. \$
9. Temporary Pay Differential (non-base building subject to salary lid)		
A. Acting: end date ____/____/____		9A. \$
B. Long-term special project: end date ____/____/____		9B. \$
C. Critical skill: end date ____/____/____		9C. \$
Pay Premium Increases (received on regular, planned basis)		
10. Overtime: ____ # overtime hours/month x 1.5 base hourly rate	10. \$	10. \$
11. Shift Differential: (check) ____ 2nd ____ 3rd ____ Weekend/Holiday	11. \$	11. \$
12. Other: (specify) _____	12. \$	12. \$
Total Monthly Base Salary (add 1, 2, 3, 4, 5, 10, 11, 12)	A. \$	A. \$
Total Monthly Non-Base (add 6, 7, 8, 9A -C)	B. \$	B. \$
TOTAL MONTHLY EARNINGS (A + B)	\$	\$
Total Impact on Personal Services Budget (monthly), include 10.15% for employer's contribution to PERA (12.85% for troopers). Exclude 6, 7, 8. Annualized: monthly difference between current and proposed x # months remaining in fiscal year = \$ _____.	\$	\$
Other pay increases (for informational purposes) Last Salary Adjustment Increase (within past 12 months): ____ % Recommended Survey Adjustment (next July): ____ % Last non-base building Performance Award (last July): ____ % Any other recent (past and/or expected) pay increases, e.g., incentive. ____ %	Difference: \$	

Justification for proposed increase and for awards/differentials (attach additional sheets if necessary).

Submitted by: _____

Date _____

Approved by: _____

Date _____